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**SORT**

**SORT, INC.**

10090 MAIN STREET  
FAIRFAX, VA 22031

November 3, 1986

Mr. William Donnelly  
Deputy Director of Administration  
Central Intelligence Agency  
Washington, DC 20505

Dear Mr. Donnelly:

The purpose of this letter is to acquaint you with SORT, Inc., and to briefly describe our products and services related to the newly passed Federal Employees' Retirement System Act of 1986.

Our company is a new firm in the financial and software engineering market. We have invested over 3500 manhours in developing what we believe is the most comprehensive financial analysis of the retirement plan decision.

I have enclosed a corporate brochure, a summary of our products and services, and several excerpts from our 23 page report.

We naturally stand ready to assist you regarding the retirement plan election all federal employees hired before 1984 must make. Consequently, we shall call you in the next several days to discuss how we could help you and your employees with the retirement plan election.

We appreciate, Mr. Donnelly, your review of our materials and would truly enjoy the opportunity to discuss our services and report with you. In the meantime, please feel free to call me at (703) 352-5655 if you have questions.

Sincerely,



James A. Retter, President

JAR:lsb

3 Enclosures

SORT, Inc. offers to provide the following services:

### COMPREHENSIVE RETIREMENT REPORT

Containing over 23 pages, this comprehensive report provides an in depth analysis of the financial factors impacting the retirement plan decision. The report is tailored to the individual and is based on each employee's unique situation. The report identifies the optimum plan (CSRS or FERS) for four situations. Excerpts of these summaries are enclosed.

### TRAINING

We conduct training sessions for employees within your agency to better prepare them to explain the CSRS-FERS decision. Training sessions are one day and are conducted at your location. All materials are included in the cost of the training session. We can also train your personnel specialists to operate our software analysis program, and thus, they can provide abbreviated report results to all the federal employees making the election.

### SEMINARS

To help your employees make a wise choice, we conduct seminars at your location on the retirement analysis report. We analyze numerous aspects of the CSRS and FERS retirement systems, review all aspects of the report, and discuss its important financial implications. Each seminar participant receives a customized report based on SORT's retirement analysis questionnaire.

### LICENSING

We can also provide a streamlined version of the full report. The program allows the user to input his or her federal status and then displays the optimum retirement plan for the employee. The user can change many variables such as APR growth rates, length of service, and thrift fund contributions and examine their impact on the CSRS-FERS decision. This program is contained on a single diskette and has various on-line help screens and tutorials. A site licensing agreement will be granted for use of the diskette.

See reverse for fees

Schedule of FeesCOMPREHENSIVE RETIREMENT REPORT

<u>Quantity</u>	<u>Cost per copy</u>
100 or less	\$25
101 to 500	\$23
501 to 1000	\$22
1001 to 5000	\$21
Over 5000	\$20

TRAINING

One 8-hour session\* \$4500 (materials, reports, and brochures)  
 Maximum of 3 employees.

SEMINAR

<u>Number Attending</u>	<u>Cost per employee</u>
50 or less	\$110
51 to 100	\$100
Over 100	\$90

LICENSING

Minimum site licensing agreement is for 250 users. The cost, to include training, installation, and documentation, is \$250 per diskette.

**Confidential****Conclusion: Dollar for Dollar Comparisons**

This table evaluates both plans on the basis of the retirement incomes generated by an equal contribution ("money in") and then on the basis of the Thrift Fund contributions required to generate the same retirement income ("money out").

Payout for the Same Money In and Contribution for the Same Money Out with a High-3 of \$34,500

		Thrift Fund Growth at 4% APR	
		[ CSRS ]	FERS ]
[a] Best "Money-In" Plan	...		<i>Optimum</i>
[b] Annual Retirement Income	...	\$21,483	\$22,221
[c] Average Annuity Contribution	...	7.00%	0.83%
[d] Social Security	...	0.00%	6.14%
[e] Thrift deposit	...	5.00%	5.03%
[f] Total percentage deducted	...	12.00%	12.00%
[g] Best "Money-Out" Plan	...		<i>Optimum</i>
[h] Total Contributed	...	10.74%	9.97%
[i] Annual Retirement Income	...	\$20,962	\$20,962
[j] Average Annuity Contribution	...	7.00%	0.83%
[k] Social Security	...	0.00%	6.14%
[l] Thrift Contribution Required	...	3.74%	3.00%

**Terminology & Notes**

- [a] Plan that provides the maximum annual retirement income for the same cost. In this case we use a yearly cost of 12% of your average salary.
- [b] Your annual retirement income for a total paycheck deduction of 12% of your average pay from crossover to retirement.
- [c] The percentage you must contribute toward your annuity. Throughout the analysis we use an *average* FERS annuity contribution rate. This average rate is based on your length of service under FERS.
- [d] The percentage you must contribute toward social security.
- [e] The percentage you would need to contribute to the Thrift Fund to total 12% contribution (yearly cost) of your average pay to receive the above retirement income.
- [f] The total percentage contributed toward your retirement.
- [g] The plan that minimizes your total out of pocket contributions for the retirement income given in [i].
- [h] The total amount you must contribute to achieve the retirement income given in [i].
- [i] For comparative purposes, an income level achievable in both plans.
- [j] The amount you must contribute toward your annuity.
- [k] The amount you must contribute toward your social security.
- [l] The amount you would contribute to your Thrift Fund to achieve the retirement income given in [i].

Confidential

## Conclusion: Best Income and Best ROC Strategies

This table presents the first two factors you should consider when choosing a retirement plan: which plan maximizes your retirement income and which plan maximizes the return on each dollar you contribute to the plan.

### Strategies to Maximize Income and to Maximize ROC for High-3 of \$34,500

		Thrift Fund Growth at 4% APR	
		[ CSRS	FERS ]
[a] Maximum Income Plan	...		Optimum
[b] Annual Retirement Income	...	\$21,483	\$24,283
[c] Thrift Balance at Retirement	...	\$51,891	\$155,675
[d] Thrift Contribution Required	...	5%	10%
[e] Maximum ROC Plan	...		Optimum
[f] Total Contributed	...	\$55,815	\$75,339
[g] Total payout to age 77	...	\$264,447	\$358,278
[h] Return on Contribution	...	474%	476%
[i] Annual Retirement Income	...	\$19,408	\$20,962
[j] Thrift Contribution Required	...	0%	3%

#### Terminology & Notes

- [a] Plan which can provide the maximum annual retirement income (see Table 7, page 15).
- [b] Annual retirement income which you could receive including the unreduced annuity (increased from the conversion of military service if any), social security (the amount after age 62 if you are retiring before that age), and the interest earned by your Fund.
- [c] The balance of your Thrift Fund at the start of your retirement.
- [d] The percentage of your base pay which you must contribute to achieve the above Thrift Fund balance and annual retirement income.
- [e] The plan which can maximize your return on contribution (ROC) which is a measure of how much you are paid in retirement compared to how much you contributed while working (see Table 8).
- [f] The approximate total amount you paid toward your retirement while working including all social security contributions while participating under FERS, your Thrift Fund contributions, and your annuity contributions. It does not include deposits to convert military service or contributions to social security for work outside of FERS.
- [g] The total amount you will receive by age 77 from your annuity, social security (if any), and your Thrift Fund. Note: under FERS even if you contribute nothing to the Thrift Fund, you still have an automatic 1% government contribution.
- [h] The total payout divided by the total contributed as a percentage.
- [i] The annual retirement income which you could receive with the above ROC. This includes all unreduced annuity (increased from the conversion of military service if any), social security (the amount after age 62 if you are retiring before that age), and the interest income from your Thrift Fund.
- [j] The percentage of your base pay that you must contribute to the Thrift Fund to maximize your return on contribution. This percentage is affected by the growth rate of your Thrift Fund.

## Retirement Analysis for John Q. Public

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## Scope of Study

All federal employees who participate in the old Civil Service Retirement System (CSRS) are eligible to switch to the new Federal Employees' Retirement System (FERS). During the period July 1, 1987 through December 31, 1987 all Federal workers covered by CSRS must choose between the existing retirement system and the new FERS. This decision assumes added importance because your election is irrevocable. This study will analyze and compare the retirement benefits you would earn under the Civil Service System, established in 1921, with benefits which you would earn under the new Federal Employee Retirement Act of 1986. If you switch to the FERS, then you retain the annuity and time in service which you earned under CSRS and your High-3 pay continues to run so that your CSRS annuity can increase as your High-3 pay increases.

The CSRS is a two-tiered retirement system. Your retirement income could come from two sources:

- 1) CSRS annuity, and
- 2) Thrift Savings Fund.

As a CSRS participant, you may contribute up to 5% of your base pay to the CSRS Thrift Fund which is the same financial vehicle as the FERS Thrift Savings Fund. Contributions to the Thrift Fund are to be distinguished from additional voluntary contributions to the CSRS annuity fund. Under the old law these additional contributions could not exceed 10% of your base pay and were used to purchase an additional annuity or to provide a lump sum payment at retirement. However, contributions to the Thrift Fund are added to the same pool of money as are contributions by FERS participants. The government, however, does not match contributions to your CSRS Thrift Fund and your contributions are restricted to a maximum of 5% of your salary. Of course you could also receive social security benefits if you stayed with CSRS. These benefits would result from work you performed for wages which were subject to the social security tax.

In contrast, the FERS is three-tiered. Your retirement income could come from three sources:

- 1) FERS annuity (added to your previously earned CSRS annuity),
- 2) Social Security, and
- 3) Thrift Savings Fund.

You may contribute up to 10% of your base pay to your FERS Thrift Fund and the government will match up to an additional 5% of your base pay. There is an automatic government contribution of 1% of your base pay. Additional matching contributions are: 100% of the first 3% you contribute and 50% of the next 2% you contribute.

Your Thrift Fund, throughout most of the analysis, is assumed to earn interest at 4% annual percentage rate (APR). We believe this growth rate is a reasonable and conservative expectation of real growth (stripped of inflation) of the Thrift Savings Fund. We present all figures in this analysis on the basis of the value of today's dollar. In keeping with this strategy, cost of living allowances (COLAs) are not included in your calculated income. To provide insight into the effect of different growth rates, other tables and graphs in the Detail and Comparisons sections provide results calculated with different interest rates.

We have included in Table 10 the tax advantages of Thrift Fund contributions under CSRS and FERS using the Tax Reform Act of 1986. Your contributions to the Thrift Savings Plan as either an FERS or CSRS employee are tax deferred, but there are limitations on the amount you can tax defer. The Thrift Savings Plan will be tested annually to determine if it discriminates against lower wage earners. If the plan is found to be discriminatory, then a limit on the percentage which can be contributed will be set at some level below the initial 10% FERS limit and 5% CSRS limit. The excess contribution will be refunded to the employee and taxed as income for the year being tested. Alternatively, excess contributions can possibly be rolled over as a contribution for the following year.

Throughout the analysis we present two sides of the retirement plan issue: which plan can maximize your income in retirement and which plan can pay you the most in retirement compared to your contributions while working. The second aspect is represented by what we term your Return on Contribution or ROC. It is a simple measure of the efficiency of your contributions in each of the two plans. Your choice is to select a strategy which will maximize either retirement income or ROC depending on your personal financial goals and circumstances.